



Submission to the Board of Governors and University of Victoria Foundation

May 1st, 2014

Dear University of Victoria Board of Governors and University of Victoria Foundation,

According to 2012 information, the University of Victoria Foundation has approximately \$20.98 million invested in the fossil fuel industry – in companies whose main source of revenue is the extraction, distribution or burning of fossil fuels. UVic has not yet made its 2013 investment information publicly available.

Over the past four months, a group of students on campus has worked to garner the support of students for divestment from fossil fuels. 1,750 students have already indicated their support for this initiative. Together, we are calling on the University of Victoria Foundation to:

1. Adopt a policy of investing endowment funds only in companies and financial products that are not directly affiliated with fossil fuel extraction or distribution.
2. Initiate a three-year plan to divest all current holdings in companies and financial products that do not meet the above criteria.

Why Divestment?

“Investment decisions need to reflect the clear scientific evidence, and fiduciary responsibility needs to grasp the intergenerational reality: namely that unchecked climate change has the potential to impact and eventually devastate the lives, livelihoods, and savings of many, now and well into the future.”

- UN Climate Chief Christiana Figueres

The University of Victoria’s 2012 Strategic Plan states that, “We are committed to promoting the development of a just and sustainable society through our programs of education and research and the stewardship of our own financial and physical resources.” We believe that the portion of the Endowment Fund invested in fossil fuels does not reflect the intent of this statement. The

science is clear: anthropogenic carbon emissions are causing rapid climate change worldwide, which is already responsible for the death of thousands and displacement of millions of vulnerable people. If it is wrong to wreck the climate, then it is wrong to profit from that wreckage.

The 2013 report of the Intergovernmental Panel on Climate Change called the evidence of global warming “unequivocal,” and the evidence that the dominant cause is anthropogenic emissions “extremely likely.” The scientific community has also come to a consensus that without dramatic reductions in our greenhouse gas emissions, temperatures will rise to levels that will create far more dangerous impacts. If we remain on the current trajectory, climate models predict a warming of 2.6 to 4.8 °C by the end of this century (in addition to the 0.8 degrees already observed).¹

Potential impacts of climate change on future quality of life taken from the 2014 IPCC report include:

- “Elevated risks of death, injury, ill-health, or disrupted livelihood in low-lying coastal zones.”
- “System risks due to extreme weather events leading to breakdown of infrastructure networks.”
- “Risk of food insecurity and the breakdown of food systems linked to warming, drought, flooding, and participation variability and extremes, particularly for poorer populations.”
- “A large fraction of both terrestrial and freshwater species faces increased extinction risk.”
- “Climate change can indirectly increase risks of violent conflicts in the form of civil war and inter-group violence by amplifying well-documented drivers of these conflicts such as poverty and economic shocks.”²

In the 2009 Copenhagen Accord of the United Nations Framework Convention on Climate Change, the international community agreed upon a target of remaining within 2 °C of warming to avoid catastrophic climate disruption. The concept of a “carbon budget” has thus emerged over the past five years to characterize the amount of additional greenhouse gases humanity can safely afford to release. There is widespread agreement that the majority (between 60-70%) of carbon in global energy reserves (oil, coal and gas) needs to remain underground in order for humanity to have a reasonable probability of staying within the 2 °C threshold.

This carbon budget concept has direct implications for the long-term financial viability of the fossil fuel industry. Total known fossil fuel reserves are included in present valuation of fossil fuel companies, yet the scientific modeling indicates that we cannot afford to burn most of them.

¹ IPCC, “Summary for Policymakers,” In Climate Change 2013: The Physical Science Basis. Contribution of Working Group I to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change, 2013, https://www.ipcc.ch/report/ar5/wg1/docs/review/WG1AR5-SPM_FOD_Final.pdf

² IPCC, “Summary for Policymakers,” In Climate Change 2014: Impacts, Adaptation, and Vulnerability, 2014, http://ipcc-wg2.gov/AR5/images/uploads/IPCC_WG2AR5_SPM_Approved.pdf

This disjuncture poses a major risk to the long-term profitability of the industry and a major financial risk to investors. This risk of stranded assets due to the so-called “carbon bubble” is attracting increasing attention from investors around the world. Industry experts from major financial institutions such as HSBC indicate that these companies may be overvalued by as much as 60%.³

The University of Victoria prioritizes improving the accessibility of post-secondary education. By investing in fossil fuel industries UVic is not only contributing to the creation of a dubious future for its students, but also banking on industries that are currently over-valued. Thus divestment is the only option to maintain long-term stability of funding from the Endowment.

In addition, we believe that the Board’s choice to continue to invest in fossil fuel industries is incompatible with a commitment to sustainability. The 1,850 signatories of Divest UVic’s petition call on the University of Victoria Foundation to align its investments with the stated values and priorities of the University of Victoria, specifically with respect to environmental sustainability and financial stewardship.

To be a true leader in sustainability and innovation, it is imperative that we align our money with our mission. Universities have both an obligation and a unique opportunity to cultivate a healthy society and planet. Funding the destruction of our future is in direct conflict with this value, and with many goals outlined in the University’s Strategic Plan.

The University of Victoria has the opportunity to take a strong moral stance on what is this generation’s greatest crisis: climate change, and the social injustices that come with it. By using its financial and social influence, the University can promote positive change towards maintaining a liveable Earth for all of us.

The Divest UVic organizers and the 1,850 students and community members who have signed our petition urge you to consider this request very seriously. We are acutely aware that the issue of climate change merits urgent action. We stand with students at over 300 other universities across North America who are working on the same initiative, along with individuals in countless municipalities and other institutions.

We are proud of UVic’s commitment to sustainability, however, as we face the gravity of the climate crisis, including its threat to the future well-being of the university community, it is clear more significant action must be taken. The time has come for the university to take the next step, and live up to its stated values.

³ HSBC Global Research, “Oil and Carbon Revisited”, 25 January 2013, <http://gofossilfree.org/files/2013/02/HSBCOilJan13.pdf>

Five Considerations Regarding University Divestment

The remainder of this submission will respond to five divestment considerations that were raised in the UVic Finance Committee's submission to the Board of Governors for April 1st, 2014.

1. Financial:

What is the financial impact of the divestment? What would be the impact on endowment returns?

Divest UVic recognizes and appreciates that the primary responsibility of the University of Victoria Foundation Board is to ensure stable growth and consistent rates of return while protecting the endowment fund from inflation and investment volatility. It is in the interest of current and future generations of the University of Victoria community to ensure that the endowment fund is resilient and well maintained, and Divest UVic would not advocate for any changes in the fund's management that would compromise this Board's ability to practice sound financial stewardship. We are convinced that divestment from carbon-intensive companies and financial products is not only compatible with these ends in the short term, but will also substantially reduce long term risk.

A recent theoretical portfolio analysis undergone by the Aperio Group has found that complete divestment from fossil fuel companies and related financial products only slightly increased the portfolio's risk, and had a negligible impact on investment return.⁴ These findings reflect the amenable nature of the request we are making of this board. The scope of our campaign is narrow; we wish to distance our university from a specific section of the economy that is irreconcilable with our university's vision. The energy infrastructure of the future must be renewable, sustainable and accessible. Fossil fuel divestment is a necessary early step towards this future, and that the lack of significant short-term risk in divesting from fossil fuels should be seen as a sign that the time to take decisive action is at hand. We recognize that the Aperio Group investigation, and most similar investigations cited in this document were conducted in the United States and that fossil fuel companies compose a much larger portion of the Canadian investment marketplace. Nonetheless, we believe the comparison to be valid enough to be relevant – in the first place, almost half of the equities held by the endowment fund are global and not domestic in nature.

Furthermore, divestment may also be a prudent long-term financial strategy. The International Energy Agency has calculated that an 80% reduction of global carbon emissions is necessary to ensure that anthropogenic global warming remains below the aforementioned 2° C warming threshold.⁵ If fossil fuel companies do not start to shift production in a serious way toward renewables then their value and profitability is contingent upon their ability to develop reserves

⁴ Aperio Group, "Building a Carbon Free Portfolio," 2013, https://www.aperiogroup.com/system/files/documents/building_a_carbon_free_portfolio.pdf

⁵ International Energy Agency, "Redrawing the Energy-Climate Map," 2013, http://www.iea.org/media/freepublications/executivesummary/WEO2013_Climate_Excerpt_ES_WEB.pdf

well beyond what our remaining global carbon budget can allow. Divest UVic encourages the University of Victoria Foundation to distance itself from carbon-intensive fossil fuel companies now, before the regulatory mechanisms that our current climate crisis demands are implemented, inevitably bursting what is now a growing “carbon bubble”. Divesting from fossil fuel companies and related financial products will allow the University of Victoria to advocate in tangible ways for sane, measured responses to the challenges posed by climate change without being beholden to and stifled by its own financial interests.

Will divestment impact fundraising?

We believe demonstrating a strong commitment to sustainability and becoming a global leader in combating climate change can help UVic attract additional donations and funding. UVic is already a leader in sustainability, and divestment of fossil fuel companies would only further support that value. The above arguments maintain that divestment will not negatively impact the endowment fund and may have a positive effect in the long term. Consistent with this logic, potential donors should not be concerned that divestment will damage the financial stewardship of their donations.

2. Moral

“People of conscience need to break their ties with corporations financing the injustice of climate change... It makes no sense to invest in companies that undermine our future.”

- Desmond Tutu

Is there a moral imperative that UVic should support?

It is wrong for UVic to profit from investments that contribute to climate change. Moreover, the negative costs of fossil fuel consumption do not end with carbon emissions. The costs are also felt when fossil fuels are excavated, pumped, or fracked from the ground, and when those fuels are transported and refined. In many cases, these processes cause irreparable harm to the communities at the front line of extraction, transportation, and refinement.

Vulnerable groups of people are the most greatly impacted by the processes undertaken by fossil fuel companies and by climate change. In Canada, First Nations communities disproportionately bare the negative effects of fossil fuel extraction. Alberta’s oil sands in particular are associated with severe infringements on treaty rights. Environmental degradation near fossil fuel extraction sites makes it increasingly difficult for indigenous communities to sustain traditional practises.⁶

⁶ Nobel Women’s Initiative, “Breaking Ground: Women, Oil, and Climate Change in Alberta and British Columbia,” 2013, <http://nobelwomensinitiative.org/wp-content/uploads/2013/10/Breaking-Ground.pdf>

As well, Inuit communities, and other northern communities are already witnessing the effects of climate change on Arctic environments. Rising sea levels, melting ice, and changing biodiversity are challenging the communities in Canada's North.⁷

Internationally, countries in the Global South who have contributed the least to causing climate change will bare the most drastic impacts in the form of droughts, heat waves, floods, storms, and rising sea levels. However, the effects of changing weather patterns are already experienced around the world. The World Health Organization estimates that climate change could be responsible for more than 150,000 deaths per year, largely as a result of natural disasters.⁸

Inadvertently supporting this social and environmental damage is inconsistent with UVic's core values of sustainability, civic engagement, and innovation. UVic is currently contributing to research in indigenous governance and language revitalisation while at the same time implicitly supporting widespread infringements of treaty rights. It is funding the Pacific Institute of Climate Solutions while also funding the very problem that PICS is combating. Avoiding meaningful action in ethical investing sends a hypocritical message to students. It creates the impression that aligning values with practises is impossible or even unnecessary. Educational institutions have a moral responsibility to reconcile their administrative practises with their role as leaders in society. UVic should fully embody its own vision and beliefs.

Would there be consensus among UVic's various stakeholders? What would be the process to determine and who would be responsible to undertake an assessment? What if there is not agreement?

A discussion about divestment is currently underway in the campus community.

Students hear about global responsibility while being educated in institutions that often spend their budgets and invest their endowments in the most irresponsible things. The lessons being taught are those of hypocrisy and ultimately despair. Students learn, without anyone ever telling them, that they are helpless to overcome the frightening gap between ideals and reality. What is desperately needed are institutions capable of embodying ideals wholly and completely in all of their operations."

- David Orr, in "What is

⁷ Health Canada, "Climate Change and Health & Well-being in Canada's North," 2013, <http://publications.gc.ca/collections/Collection/H46-2-02-290-1E.pdf>

⁸ World Health Organization, "Climate Change and Human Health, Risks and Responses," 2003, <http://www.who.int/globalchange/publications/climchange.pdf>

- As of April 30th, 2014, 1,750 students and 100 community members have signed a petition calling on the University of Victoria Foundation to divest from fossil fuel companies in the Endowment Fund. The 1,750 student signatures are equivalent to 8.4% of the total student body. As representatives of student opinion, candidates from both major slates, as well as an independent candidate, expressed support for divestment during the University of Victoria Students' Society Board elections this February.⁹
- As of April 30th, 2014, 164 UVic faculty have signed an open letter addressed to Lisa Hill, Chair of the University of Victoria Foundation, expressing support for the student campaign to divest the University of Victoria Endowment Fund.¹⁰

These numbers are indicative of widespread support among faculty and students. Conversations are also beginning to take place with staff and alumni. Further steps to assess the opinion of UVic stakeholders are planned or underway, including an upcoming Faculty Association vote on a motion to divest their pension.

Is there a conflict in divesting from something we heavily rely on for our operations and in an area that we provide academic programming? Fossil fuel use is uniquely polarizing, in that we require it for the energy to heat and light our buildings, to fuel our transportation, and to run our computers; however it is considered to be the primary reason for climate change.

It is true that to some extent we are all reliant on fossil fuels in our daily lives. We readily acknowledge this fact and do not condemn use of fossil fuels in a society that provides insufficient alternatives.

However, the argument that anyone who relies on fossil fuels is unable to criticize them is a recipe for inaction. The goal of the divestment movement is not simply to condemn the fossil fuel industry, but to enable the growth of sustainable alternatives. A shift to renewable energy is not only urgent, it is also technologically and economically feasible.¹¹ What prevents this shift is a political and economic structure focused on fossil fuel-based energy systems. This structure continues to provide subsidies to the fossil fuel industry rather than for renewable energy. Underpinning this is a lack of meaningful commitments by governments to reduce carbon emissions and a paralysis in political will.¹²

⁹ UVSS candidate views regarding divestment can be found in the Martlet's Election 2014 Candidate Directory: <http://www.martlet.ca/elections/uvss-election-2014-candidate-directory/>

As well as in this candidate survey taken by the UVic Greens Club:

https://docs.google.com/file/d/0B_E0rqIv87mGMUZGVEhWUEFncHM/edit?pli=1

¹⁰ UVic Faculty for Divestment, "Open Letter to UVic on Divestment," 2014,

<http://uvicfacultyfordivestment.wordpress.com/open-letter-to-uvic-on-divestment/>

¹¹ Intergovernmental Panel on Climate Change, "Summary for Policy Makers," 2007,

<http://www.ipcc.ch/pdf/assessment-report/ar4/wg1/ar4-wg1-spm.pdf>

See also: The Solutions Project (<http://thesolutionsproject.org>) and other research lead by Stanford's Mark Jacobson.

¹² See UVic Faculty for Divestment, "Reasons to Divest Our Pension", 2014, Reason 3:

<http://uvicfacultyfordivestment.wordpress.com/reasons-to-divest-our-pension/>

Right now, the most effective action that can be undertaken to shift our energy system is to break this political deadlock. The divestment movement does this by challenging the social license to operate that fossil fuel companies currently enjoy. If enough respected institutions like universities divest, it will become more politically palatable for governments to create policies aimed at developing renewable energy.

As well as contributing to climate change and social harm, accessible fossil fuels are running out. It is true that fossil fuels have allowed us to improve quality of life in many areas, however, we must make the most of current technologies to shift to a sustainable energy system before we simply are no longer able to use oil, gas, and coal without incurring even more extreme social, environmental, and economic costs.

It is not wrong to criticize a practise that we know is harmful because we have no choice but to participate in it. It is, however, morally unsound to avoid taking meaningful action for a sustainable future.

3. Efficacy

Will divestment achieve the change desired? Will divestment of fossil fuel accomplish the end goal, which is to limit the extraction of fossil fuels and encourage the use of alternative energies?

The divestment movement is inspired by the anti-Apartheid movement of the 1980s, in which divestment efforts were a major factor in ending apartheid. The impact of the anti-Apartheid divestment campaign was based less on the valuation of companies doing business in South Africa than on how it altered the political climate within the racist South African regime. The divestment campaign, which began at universities and religious institutions, stigmatized firms doing business in South Africa, which ultimately hurt the brand and credibility of these firms in the marketplace. While hurting the bottom line was a part of the strategy, what these campaigns accomplished was much more than simply a financial impact. Divestment increased public visibility about Apartheid and created a forum through which citizens from all around the world could collectively express their opposition to segregation and injustice. The worldwide opposition transformed Apartheid into an issue that could not be ignored, and indeed became the moral issue of its time. This transformation of the issue into one of global import, supported by a wide range of institutions, led to the downfall of Apartheid.

The theory of change underlying the fossil fuel divestment movement is based on similar logic. We currently face a political stalemate in taking action on climate change. Political resistance to climate action has been fuelled to a large degree by the aggressive lobbying of the fossil fuel industry. This industry has deliberately misled the public about the scientific consensus on climate change and sought to block, dilute, and delay the adoption of effective climate policies. Divestment is an extremely powerful way to shift the narrative around our reliance on fossil fuels and to force people to consider the urgency of the climate change crisis. It creates the political space and social license to engage in different conversations, and beyond that, to change our actions in tangible ways. When major institutions, like universities, choose to divest

from fossil fuel companies, it sends a strong message that we are no longer willing to accept the status quo and are demanding a transition to a clean energy future.

Universities are leaders in the investment space. As universities move their money other investors will begin to follow, amplifying the impacts of divestment. This has been demonstrated recently by the commitments made by 11 US cities to divest from fossil fuels. If institutional fund managers are compelled to change their policies by universities and colleges, this will create more opportunity for other investors to do the same.

One often voiced argument against divestment is that UVic should instead maintain ownership and exercise leverage as a shareholder. However, the issue at question with fossil fuel companies is their entire business model: extracting and burning fossil fuels. It seems highly unlikely that Shell or Suncor will pass a shareholder resolution to decrease their fossil fuel operations. In practice, major fossil fuel companies have shown little evidence of shifting their operations toward renewable alternatives. British Petroleum shut down their small solar power division in 2011 and Shell sold their solar and wind divisions in 2009.¹³ Thus working through shareholder channels is inadequate to achieve the transformative changes required on this issue.

Universities hold a small percentage of shares in the energy industry. The relatively small influence that universities possess as shareholders is vastly outweighed by their great influence in society at large. Educational institutions are respected and viewed as compasses for scientific and social direction. The divestment campaign aims to make use of the area in which universities have the greatest power to influence change.

Ending our investments in fossil fuels sends a resolute message that this source of energy is not the path to a prosperous or safe future, for our school, or for the world. Divesting will remove the appearance of respectability from the destructive fossil fuel industry. Moreover, it will alter the discourse, perception, and acceptability of the status quo. Divesting UVic's endowment from fossil fuels will create the space for the necessary social change and help prompt the political action needed to combat dangerous climate change.

4. Reputational

What would be the impact on UVic's reputation from either divesting or not divesting?

To earn its reputation as a leader in sustainability, the University of Victoria must continue to adapt to a changing world by embracing new commitments to financial and environmental responsibility. The regressive climate and energy policies of our political leaders do not diminish the responsibility of educational institutions to remain forward thinking and committed to developing and implementing practical, attainable solutions. Fossil fuel divestment might now seem like an unnecessarily high standard to hold a university to, but the divestment movement

¹³ Bill McKibben, "Global Warming's Terrifying New Math," 2012, <http://www.rollingstone.com/politics/news/global-warmings-terrifying-new-math-20120719?page=4>

has incredible momentum. Eleven schools in the US have already committed to divest as well as 22 American cities and a number of foundations and religious institutions around the world.

Over 300 divestment campaigns at various universities and colleges are active in North America, and many are making impressive headway. UBC's successful student referendum with 77% of student voters in favour of divestment is one such example, and actions at high profile schools such as Harvard are garnering the divestment movement considerable media attention. On top of political momentum, the scientific consensus on climate change suggests that a shift toward a renewable energy future is inevitable. It may only be a matter of time before divestment is another part of history that seems an obvious choice in retrospect, similar to the movement against Apartheid. Committing to fossil fuel divestment now is an opportunity for the University of Victoria to contribute to a better future and to advance its reputation as a leader in environmental, economic, and social sustainability.

5. Legal

Is divestment consistent with the Foundation's Board Members fiduciary duty?

Fiduciary responsibility, or fiduciary duty, means that trustees must act in the best interest of the institution. At many schools, this is interpreted to mean maximizing short-term returns at the expense of all other factors; many administrators justify this policy by stating that any other course of action would be breaking their legal responsibility. This interpretation of fiduciary duty, however, is a fallacy as evidenced by the steps that many administrators and other institutional investors have taken to align investment and values, whether it be in low-carbon index funds, engaging in shareholder activism, community investing, and more.

The fact that strict fiduciary duty is not necessarily a barrier to divestment is suggested by the legal precedents in the area. Such precedents do suggest that trustees must maximize returns and that limiting the field of assets which one can invest in generally contravenes that maximization.¹⁴ However, the legal precedents also recognize that such limitations occur naturally in modern portfolio management. Particular managers will have investment styles that they use to differentiate themselves from other managers and as part of a strategy to find the most productive assets. Moreover, all large institutional funds will have classes of asset which they deem to be too risky or simply too poor a fit for their fund to invest in. Thus some level of exclusion, selectivity, and limiting of the total possible field of investments is acceptable within fiduciary duty. Moreover, key cases from the Apartheid divestment movement, as well as more recent administrative decisions show that social and environmental responsibility screens can fall within this acceptable boundary. Finally, the fact that a number of post-secondary institutions in the United States have already begun the process of divestment displays that the legality is not generally in question.

¹⁴ Cowan v. Scargill, [1985] in Fiduciary Duties, Investment Screening and Economically Targeted Investing: A Flexible Approach for Changing Times, which is also the reference for the arguments in the rest of this paragraph, http://www.share.ca/files/Fiduciary_Duties,_Investment_Screening_and_ETI.pdf

Ultimately, the fiduciary responsibility to act in the interests of stakeholders also makes little sense without a commitment to inter-generational equity, a cornerstone of sustainable investment. UVic has both the opportunity and the obligation to recognize that responsibility means looking beyond short-term, unsustainable and morally untenable ways of generating profits and returns.

Furthermore, donors do not dictate institutional investment policy – their main goal is to support the mission of the university or college. Since fossil free investment fits UVic’s mission to promote “the development of a just and sustainable society”, it should pose no problem for them.

Conclusion

Through addressing the considerations raised by the Finance Committee in regards to the complexities and implications surrounding university divestment, we hope that the Board of Governors and University of Victoria Foundation understand the reasoning behind the call to divest from companies within the endowment fund whose main source of revenue is the extraction, distribution or burning of fossil fuels.

Studies show that divesting has a small impact on risk in the short-term and has the potential to benefit financial stability in the future. The arguments made in this report also address concerns that divestment may present a challenge to the fiduciary responsibility of the Foundation Board. The divestment movement is designed to mobilize the political change we urgently need if we are to effectively address global warming. It may possess more momentum right now than any other international movement to combat climate change. Finally, divestment is a moral choice that would bring UVic’s practises in line with its stated values and forward the university as a leader in sustainability. Furthermore, it is a choice that could have extremely positive effects on UVic’s reputation in the coming years.

For these reasons, we believe that divestment is rational, effective, ethical, and simply the right thing to do.

Sincerely,

Christina Price
Tristan Ryan
Emily Thiessen
Kelsey Mech, and
Matt Hammer

on behalf of Divest UVic